

# ***Business Loan Briefing***

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U.S. Small Business Administration  
Seattle District Office  
Spokane Branch Office

Serving Washington State  
and Northern Idaho

[www.sba.gov/wa/seattle](http://www.sba.gov/wa/seattle)



# Overview

- SBA Business Loans
- What Lenders Look For
- Business Planning
- Preparing to Meet With Your Lender
- Other Financing Options
- Small Business Resources

# How SBA Business Loans Work

SBA is **not** a direct lender (*with the exception of disaster loans*).



SBA **guarantees** loans that Lenders make to businesses.

**Businesses** work with their **Lenders**.

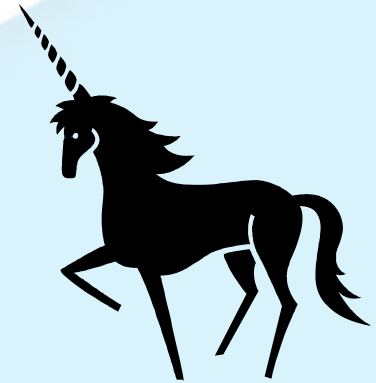
The **Lender** applies to SBA.

If a borrower defaults, SBA pays guaranty to Lender.

*Loan application guidance – RG page 13*

# Common Myths about SBA

- Offer grants to start or expand a business
  - [www.grants.gov](http://www.grants.gov)
- Make low-interest loans
- Make direct business loans
  - Exception: Disaster Loans
- Make loans only to applicants with a specific demographic profile
- How big is small?



# What is Considered Small?

- Manufacturing Sector
  - Less than 500 employees
- Wholesale Sector
  - Less than 100 employees
- Construction Sector
  - Annual Sales less than \$13-31 Million
- Service and Retail Sectors
  - Annual Sales less than \$6.5 Million

*About 90% of all  
businesses*

*Over 25 million  
small businesses  
nationally*

[www.sba.gov/size](http://www.sba.gov/size) or [www.census.gov/naics](http://www.census.gov/naics)

# Why Lenders Use SBA Financing

- SBA Guarantees up to 85% of loan
- Mitigates risk to Lender
- Lender wants to give borrower a longer term
- Collateral may not be adequate for loan
- Economic conditions
- Lending institution policy
- Business Sector / Industry issues
- New businesses

# Permissible Uses of SBA Loans



- Working Capital
- Inventory
- Payables
- Equipment
- Tenant improvements
- Real estate
- Debt Refinance
- Franchise business
- Business acquisition

*About 1/3 of loans go to start-ups*

# Buying a Business / Acquisition

- Never buy “sight unseen” – including financials
- Show how VALUE of business is determined:
  - customer list
  - real estate
  - Equipment
  - future business promised / contracts
  - other assets?
  - How much is “blue sky?” (non tangible assets)
- Proposed “Buy/Sell” Agreement
  - Showing value of assets being transferred / liability
- 3 years of seller’s business tax returns
- Owner “carry back”/seller financing acceptable
- Must be complete transfer of ownership



# Franchise Businesses Need

- Is it listed on the Franchise Registry?
  - [www.franchiseregistry.com](http://www.franchiseregistry.com)
  - Certification signed by Franchisor
- If the franchise is not listed:
  - A copy of the Franchise Agreement
  - Documents must be approved by SBA Legal Counsel

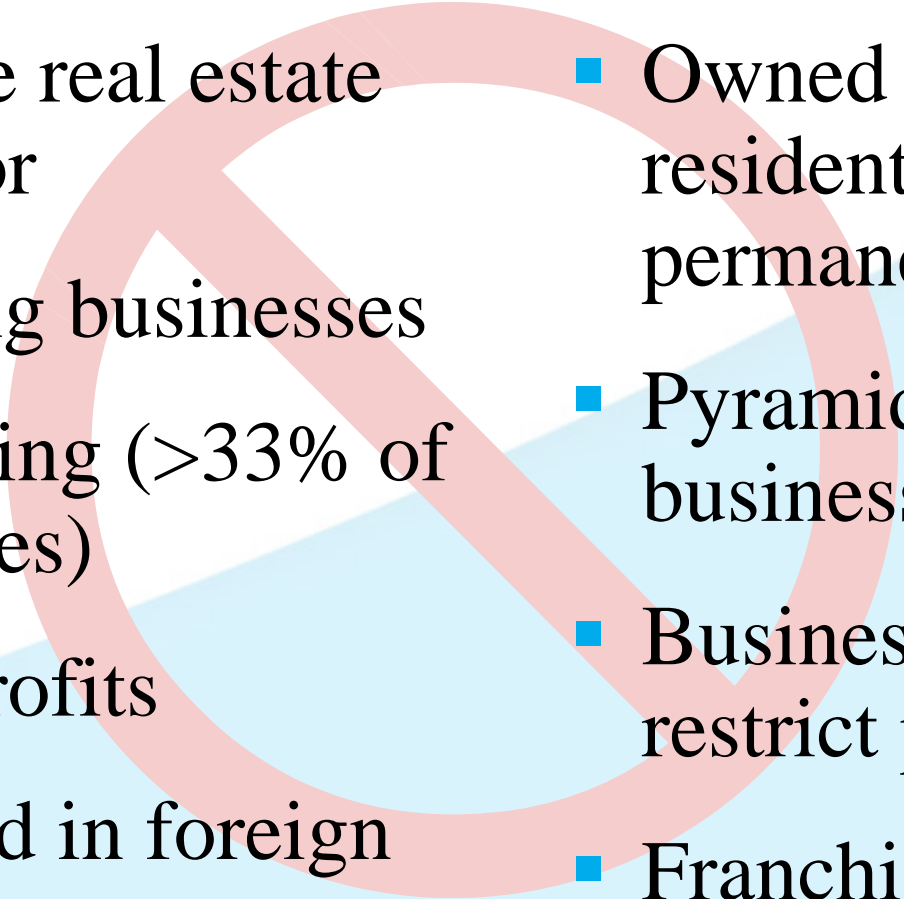


# Ineligible Uses of SBA Loans

- Proceeds benefit an associate
- Payment of past due withholding taxes
- Refinance of “reasonable” debt
- Purchase of less than 100% of a business



# Examples of Ineligible Businesses

- 
- Passive real estate investor
  - Lending businesses
  - Gambling (>33% of revenues)
  - Non-profits
  - Located in foreign countries
  - Owned by non U.S. residents (legal permanent residents)
  - Pyramid type businesses
  - Businesses that restrict patronage
  - Franchises on “watch list”

# What Do Lenders Look for?



## The 5C's of Credit

- Capacity – Management Skills
- Cash Flow – Repayment Ability
- Character / Credit
- Contribution (*Your Investment*)
- Collateral

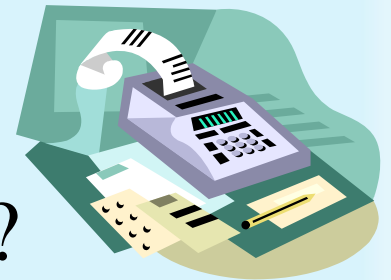
# Capacity – Management Ability



- Experience
  - In the industry
  - As a manager or owner
  - In that specific business
- Education
- Resume – Classes, Training, etc.
- Capable Management Team (staff & advisors)
- Action plan to get necessary skills

# Cash Flow – Repayment Ability

- Cash Flow and Income Statements
- Show that **business earnings** can **repay loan**
- Where did you get those numbers?
- What are your cash flow assumptions?
- Do your research at local business libraries?



[www.sba.gov/library/cfbudget.xls](http://www.sba.gov/library/cfbudget.xls)

# Cash Flow - Projections

- **AFTER** you have prepared your projections, check the industry standards
  - **How?** Check Industry Trade Associations for your stats (National Restaurant Association, National Hardware Association, etc.)
  - **Find** your NAICS\* code and check the RMA\*\* Annual Statement Studies
  - **Don't** use the RMA to make your projections!

\*[North American Industry Classification System](#)

\*\*Risk Management Association

# Character / Credit

- Payment history
- Personal and business credit history
- Bankruptcy and bad credit
- Criminal history ([SBA Form 912](#))
  - May delay processing of loan
- If married or separated
  - Spouse must sign financials (in community property states)



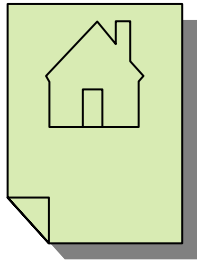


# Contribution – Equity Your Investment

- You *must* use some of your own money
- Indicator of stability, ownership commitment
- How much? Average 20-30%...but...
- Borrowing from friends and family
- Borrowing against personal assets
- Seller financing
- Investors



# Collateral – Security for the Loan



- Assets you may lose if your business fails
- SBA loans secured to the extent possible
- Lack of collateral does not preclude SBA financing



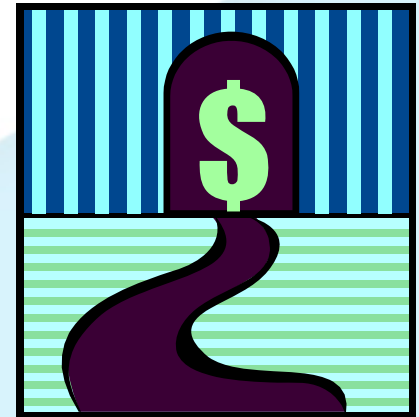
- What if you don't have much?



- SBA guaranteed loans are generally more flexible
- Lenders discount collateral value

# Why Do a Business Plan?

- Create a Detailed Road Map
  - Focus on goals and objectives
- A Measuring Tool
  - Performance evaluation
- To Gain Knowledge
  - Develop answers to aid decision-making
- Develop Alternatives
  - Contingency planning
- Feasibility Analysis
  - Assessment of business potential



# The Four Hats



Operations



Management



Finance

*Can you wear the four hats?*

*Or are you a “seat-of-the pants” manager?*



Marketing

# Business Plan Resources



*If you fail to plan...*

*you are planning to fail*

*Businesses with plans are*

*more successful*

- Get free and confidential business counseling
- SCORE, WBC or WNET Workshop
- SBDC Classes
  - NxLevel and online
- Use local business library resources
- Business plan templates
  - free to download

[www.score.org/template\\_gallery.html](http://www.score.org/template_gallery.html)

# Preparing for the Bank

- Projections
  - Income Statement, Cash Flow and Balance Sheet (personal/business)
- You must show and be ready to discuss with confidence:
  - Assumptions, market research, etc.
  - Solid estimates of sales and expenses including equipment cost
  - Proposed location of business, terms & cost
- Last 2-3 years tax returns (personal/business)

*ALL Tax Returns and Financial Statements must have current dates and signatures of all principals*



# How Much Money Do You Need?

- Discuss it with your Lender
  - Be prepared
  - Don't ask "*How much can I get?*"
    - You should know before you go
- Anticipate Lender's questions
- Prepare a list (supported by documentation) of funds uses such as:
  - Equipment
  - Inventory
  - Facility
  - Working capital

# Maturity – How Long to Repay

- Based on the Useful Life of the Asset
  - *How long will what you are buying last?*
- General Guidelines
  - Working capital and inventory.....7 years
  - Equipment.....10 years
  - Real Estate.....25 years



# Interest Rates



- Determined by Lender
  - Rates are negotiated between bank and borrower
- Tied to prime rate – See paper
  - Prime is what banks charge their best customers
- Maximum for SBA Loans
  - Less than \$25,000..... 4.75% over prime
  - \$25,001 - \$50,000..... 3.75% over prime
  - Over \$50,000..... 2.75% over prime
- Fees
  - Lender collects SBA guaranty fee of 2-3.5% of guaranty portion of the loan

# About Lenders



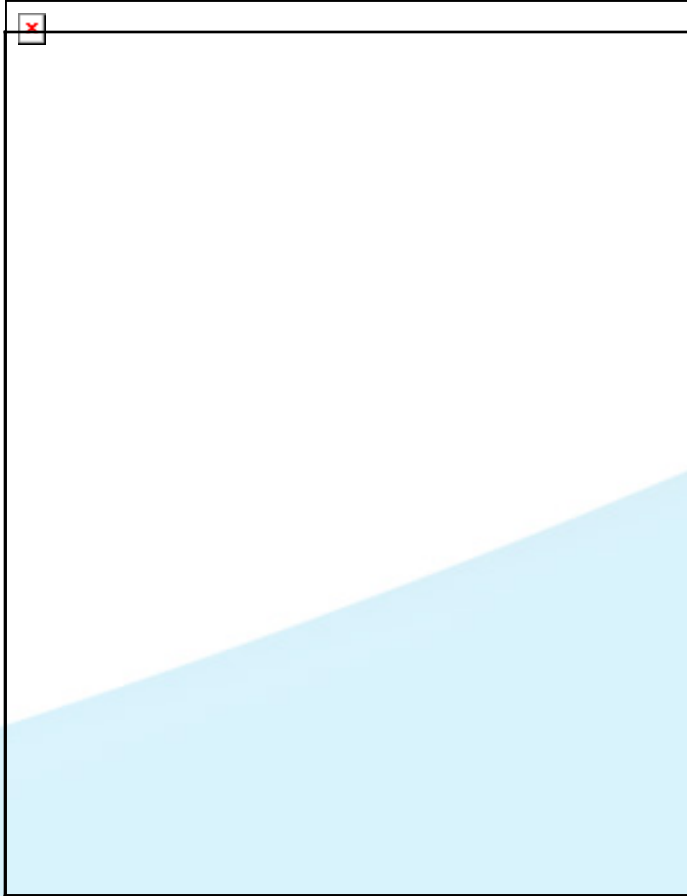
- Every Lender/Loan Officer is different
- Every Lending Institution is different
  - Loan Parameters
- They don't like surprises
- Find a Lender who understands your industry
- Find a Lender who will work with you
- Create a partnership with your Lender
  - For long-term relationship support as you build your business

# Other Financing Options

- Linked Deposit Loan Program – WA
  - For Certified Women and Minority-Owned Businesses
  - Saves 2% on Interest (Note: 1 year waiting list)
  - Can be SBA guaranteed loan
- Regional Specific Loan Programs
  - WA – Check with state – rural, distressed areas
  - ID – Idaho Prime Rate loan – up to \$150,000
- Microloans - \$500 to \$35,000 or more

*See SBA Business Resource Guide pages 26-28*

# Small Business Resource Guide



- Start-Up Checklist pg 3
- Business Plan Outline pg 10
- Counseling/Workshops pg 16-19
- Licensing Information pg 4-5
- Loan Programs pg 12-14, 26-28\*
- Government Contracting pg 21-23
- International Trade pg 15, 28-29
- Regional Resources

\*Alternative financing programs and microloan lenders on pgs 26-28

Available online at [www.sba.gov/wa/seattle](http://www.sba.gov/wa/seattle)

# SBA Resource Partners



- Counseling
  - No charge
  - Confidential
  - One-on-one
- Training
  - No cost or low-cost workshops



# Websites Available 24/7

## U.S. Small Business Administration – SBA

National [www.sba.gov](http://www.sba.gov)

Local [www.sba.gov/wa/seattle](http://www.sba.gov/wa/seattle)

## Women's Business Centers – WBC

Edmonds WA [www.nwwbc.org](http://www.nwwbc.org)

Seattle and Tacoma, WA [www.seattleccd.com](http://www.seattleccd.com)



## SCORE – Counselors to America's Small Business

National [www.score.org](http://www.score.org)

## Small Business Development Centers – SBDCs

Washington [www.wsbdc.org](http://www.wsbdc.org)

Idaho [www.idahosbdc.org](http://www.idahosbdc.org)

# Additional Government Websites

U.S. Internal Revenue Service [www.irs.gov](http://www.irs.gov)

U.S. Citizenship and Immigration Services  
[www.uscis.gov](http://www.uscis.gov)

U.S. Social Security Administration [www.ssa.gov](http://www.ssa.gov)

Washington State [www.access.wa.gov/business](http://www.access.wa.gov/business)

Secretary of State [www.secstate.wa.gov/corps](http://www.secstate.wa.gov/corps)

State sales tax [www.dor.wa.gov](http://www.dor.wa.gov)

Idaho State [www.business.idaho.gov](http://www.business.idaho.gov)

Secretary of State [www.idsos.state.id.us](http://www.idsos.state.id.us)

States sales tax [www.tax.idaho.gov](http://www.tax.idaho.gov)



# Not Sure What to Do Next?

- Review the SBA Business Resource Guide
- Download free online Business Plan templates
- Attend a workshop for more instruction
  - ➔ See workshop brochures for schedules or go to [www.sba.gov/wa/seattle](http://www.sba.gov/wa/seattle)
- Meet with a Business Counselor
- Do a Reality Check
  - *Projections must be realistic and attainable to be considered viable*
- Meet with a Lender to discuss your Loan Proposal





# Growing Successful Businesses



# Questions?

Seattle District Office – Western Washington  
4<sup>th</sup> & Battery Building, 2401 Fourth Avenue, Suite 450  
Seattle WA 98121  
206-553-7310

Spokane Branch Office – Eastern WA & North Idaho  
801 West Riverside Avenue, Suite 200  
Spokane WA 99201  
509-353-2800

[www.sba.gov/wa/seattle](http://www.sba.gov/wa/seattle)

